

1300 CDFA AUDITS OFFICE

1300 OVERVIEW

F&E has established a policy requiring annual financial audits for all fairs, plus biannual management/compliance audits for all District Agricultural Associations (DAA) and selected county fairs. Audits assure that individuals entrusted with public resources are accountable to the public and other levels and branches of government.

1300.1 *Mission, Vision, and Values Statement*

Mission Statement

- To provide our clients with the highest quality services to safeguard public assets and promote operational effectiveness.

Vision Statement

- To help our clients reach their vision.

Values

- **Dynamic** — The Audit Office is energetic, positive and an innovative team who will challenge the process.
- **Integrity** — The Audit Office builds their reputation on consistency, honesty and ethical behavior.
- **Objective** — The Audit Office is unbiased and open-minded while conducting business.
- **Continuous Improvement** — The Audit Office systematically improves our professional services.
- **Professionalism** — The Audit Office adheres to the professional standards.
- **Teamwork** — The Audit Office works together to accomplish goals

1301 AUDIT OFFICE RESPONSIBILITIES

The principal function of internal audits is to provide assurance to the Secretary and departmental management that the Department's obligations of collecting, disbursing and reporting of funds is proper and is in compliance with departmental policies and state rules and regulations. This is accomplished through continuous testing and evaluating of financial cycles, data processing cycles and departmental program reviews.

The Audit Office conducts a broad, comprehensive program of internal auditing within the Department and external audits requested by the departmental programs.

1301.1 Internal Audits

Internal auditing examines and evaluates the adequacy and effectiveness of the system of management control provided by the Department to direct its activities toward the accomplishment of its objectives in accordance with departmental policies and procedures. Internal audit activity is directed into the following areas:

- Internal Control and Fiscal Compliance Audits (mandated)
- Computer Services Operational Audit (mandated)
- General Services Contracts Audits (mandated)
- Program Compliance Audits and Special Investigations (as requested)
- Milk Pooling Audit - Mandated annual compliance audit
- Performance Audits

1301.2 External Audits

External auditing examines and evaluates industry's compliance with laws and regulations pertaining to specific agricultural programs. External audit activity is directed into the following areas:

- Fairs and Expositions: Providing audit services to the California fairs including 54 District Agricultural Associations and various County Fairs.
- County Audits: 57 County Agricultural Commissioners and 55 Sealers of Weights and Measures
- Commercial Feed Program
- Commercial Fertilizer Program
- Egg Quality Control Program
- Motor Oil Program
- Curly Top Virus Program
- Nursery Stock Program
- Pink Bollworm Program
- Avocado Program

1301.3 Special Investigations

Special investigations are conducted when requested by departmental and program management in coordination with the appropriate enforcement activities, including departmental and program management, legal staff and investigators, Attorney General's Office, local district attorneys and other law enforcement agencies.

1302 WHY AUDIT?

- To assure that the financial records are prepared in conformity with Generally Accepted Accounting Principles.
- To assure the quality of the financial information being presented.
- To assure that the financial data is free from actual or potential conflict of interest.
- To assure that the financial records are free of material misstatement.
- To provide credibility to the information reported by or obtained from management.
- To assure that management applies resource efficiently, economically, and effectively.
- To assure compliance with applicable laws and regulations.
- To assure that those individuals entrusted with public resources are accountable both to the public, as well as, to other levels and branches of the government.
- To reduce the likelihood of employees misappropriating assets.

1303 FINANCIAL STATEMENTS

Financial Statements are a presentation of financial data and information from accounting records to show at a point in time an entity's financial position, results of operations and cash flows or changes in financial positions.

1303.1 Balance Sheet

The purpose of the balance sheet (statement of financial position) is to report the financial position of a business at a particular point in time. Financial position is the amount of resources and the liabilities of a business.

1303.2 Income Statement

An income statement reports the revenues and expenses for a specified period. Revenues cause inflows of resources into a business and expenses cause outflows of resources. Income statements report revenues, expenses, and net income for a specific period of time.

1303.3 Statement of Cash Flows

The Statement of Cash Flows reports the cash flows from various activities. Each financial statement has a primary purpose (i.e., the balance sheet shows resources that are owned and owed to others by a business at a point in time and the income statement reports the revenues that were earned during an accounting period and the expenses reported may not equal cash out because of timing in payments. Thus, SCF is prepared to report cash flows.

1304 USE OF ACCOUNTING INFORMATION BY DECISION MAKERS

Financial statements serve decision-makers in three related ways:

1. Accounting provides information that is helpful in making decisions. Most important decisions are based in part on complex financial considerations. Accounting provides an important information base and a particular analytical orientation that help the decision-maker assess the future financial implications and potential outcomes of various alternatives that are considered. Your decision making potential is enhanced if you understand those financial impacts of alternative solutions to particular problems.
2. Accounting reports the economic effects of past decision on the entity. Once a decision is made and implementation starts, economic effects on the entity occur. These economic effects are often critical to the success of the endeavor. The evolving effects of past decisions must be measured and reported so that the decision-maker can be informed of developing problems, and of successes, over time. Accounting provides a continuing feedback of the economic effects of decisions already made, the results of which are communicated by means of periodic financial statements.
3. Accounting keeps track of a wide range of items to meet the safeguarding of responsibilities that must be assumed by all organizations. These include how much cash is available for use; how much customers owe the company; what debts are owed by the organization; what items are owned by the company.

1305 TYPES OF AUDITS

1305.1 Financial Statement Audits

Financial statement audits provide reasonable assurance about whether the financial statements present fairly the financial position, results of operations, in conformity with generally accepted accounting principles.

Financial statement audits may, for example, include audits of:

- Segments of financial statements
- Internal controls over compliance with laws and regulations
- Internal controls over financial reporting and safeguarding assets

1305.2 Compliance Audits

Compliance audits involve obtaining and evaluating evidence to determine whether certain financial or operating activities conform to specified conditions, rules or regulations.

1305.3 Investigative Audits

The Audit Office may perform investigative work requests from the Division of Fairs and Expositions.

1306 SUMMARY OF RESPONSIBILITIES AND PARTICIPANTS

TASK	CDFA	CEO	Board
Engagement Letter	✓	✓	
Entrance Conference	✓	✓	
Field Work	✓	✓	
Exit Conference	✓	✓	✓*
Preliminary Draft Report	✓	✓	✓
Fair Response		✓	✓*
Final Report	✓	✓	✓
Implement Corrective Action		✓	
Prepare Status Reports		✓	
Establish Audit Policies			✓
Monitor Status Reports			✓

* Participation is limited to designated board representative(s) and for observation only.

1307 AUDIT PROCESS

Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users.

Auditing encompasses both *investigative* process and a *reporting* process. Investigation involves the systematic gathering and evaluation of evidence as a basis for determining whether assertions made, for example, in an organization's financial statements, correspond with established criteria, such as generally accepted accounting principles (GAAP). In turn, reporting involves communicating an evaluation or opinion in an audit report to interested users. As a result, the end product of an audit is the opinion communicated in an audit report.

1307.1 Type of Audit Reports and Opinions

The Audit Office issues two types of audit reports when performing a financial and compliance audit of an organization. The first is the Independent Audit Report. It is in this report that the auditor renders an opinion on the entity's financial statements.

An independent auditor's opinion provides internal and external users with input to making reasoned, logical, and informed decisions about a variety of financial matters, including an organization's financial position, liquidity position, managerial performance, economic vulnerability, and whether they are in compliance with state rules and regulations. The four types of audit opinions that can be issued are as follows:

Unqualified Opinion An unqualified opinion communicates a favorable signal about the financial position, results of operations, and cash flows.

Financial statements taken as a whole present fairly the financial position, results of operations, and cash flows in conformity with the basis of accounting described in the notes to the financial statements

Qualified Opinion A qualified opinion communicates a favorable signal about the financial position, but with modifications.

"Except for" the effects of a particular matter, the financial statements present fairly the financial position, results of operations, and cash flows in conformity with the basis of accounting described in the notes to the financial statements.

Adverse Opinion An adverse opinion communicates unfavorable signal.

Financial statements do not present fairly the financial position, results of operations, and cash flows in conformity with the basis of accounting described in the notes to the financial statements.

Disclaimer of Opinion A disclaimer of opinion signals that an auditor does not express an opinion. A disclaimer is appropriate when an auditor has not performed an audit sufficient in scope to enable him or her to form an opinion.

Auditor does not express an opinion on the financial position, results of operations, or cash flows.

The second report issued is the management letter. Generally accepted auditing standards requires auditors to communicate reportable conditions they become aware of during the audit. In addition, auditors communicate other weaknesses, inefficiencies, or other opportunities for improvement in operations that they have observed. The management report basically comments on the organization's compliance with state rules and regulations and system of internal accounting control. The management letters identifies the findings as reportable or non-reportable.

Reportable Findings Reportable finding are significant deficiencies in the design or operation of the internal control structure, that could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable findings can also result when an organization is not in compliance with state rules and regulations. With reportable findings, the organization is required to respond on how they are going to correct these deficiencies.

Non Reportable Findings Non reportable findings are not considered as significant deficiencies in the design or operation of the internal control structure in order to affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Management is not required to address these in their audit response

1308 TYPES OF AUDITOR'S OPINIONS

➤ Unqualified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fair, as of December 31, 1997 and 1996, and the results of its operation and changes in net resources for the years then ended, in conformity with the basis of accounting described in the notes to the financial statements.

➤ Qualified Opinion

The property ledger records were not available for audit. Therefore, we are unable to express an opinion on the property accounts reflected in the Statement of Operations.

In our opinion, except for the property ledger's land, buildings, and improvements, and equipment accounts, the financial statements referred to above present fairly, in all material respects, the financial position of the Fair, as of December 31, 1997 and 1996, and the results of operations and changes in net resources for the years then ended, in conformity with the basis of accounting described in the notes to the financial statements.

➤ **Disclaimer of an Opinion**

The Fair did not maintain evidence supporting the cost of the property and equipment acquired prior to December 31, 1993. The Fair's records do not permit the application of other auditing procedures to property and equipment.

Since we were not able to apply other auditing procedures to satisfy ourselves as to the cost of the property and equipment, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements.

➤ **Adverse Opinions**

We were unable to form an opinion on six revenue sources totaling \$700,000 due to inadequate controls by the Fair over the revenue. This included fair time admissions, parking, interim rentals, master concession operator, sponsorships, and satellite wagering admissions. Weaknesses in controls included lack of inventories of tickets, lack of control over tickets, inability to reconcile sales reports to the general ledger, inability reconcile tickets to sales reports, inadequate control over sponsorship contracts, no operating contract with parking concessionaire, use of generic cash receipt books and no audit of contract operators.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial position of the Fair, as of December 31, 1997 and 1996 or the results of its operations and changes in net resources for the years then ended.

1309 CLIENT SURVEYS

Client Surveys are used in our efforts to continually improve our audit program. The surveys are mailed to the auditee with the completed audit report in order for the auditee to evaluate the audit process. The surveys are then returned directly to the audit committee chair for his/her review. The committee chair will relate this information to the Audit Office. These surveys provide answers to the following questions:

- Were the disruptions of daily activities minimized as much as possible during the audit?
- Did we communicate the audit findings and progress adequately to the Fair?
- Did the audit team demonstrate technical proficiency in audit areas?
- Did the audit team demonstrate courtesy, professionalism, and a constructive and positive approach?
- Were the audit team's conclusions and opinions logical and well documented?
- Were the Audit recommendations constructive and actionable?
- Overall, was the audit beneficial to the Fair?

1309.1 Sample Survey Form

California Department of Food and Agriculture
 Division of Administrative Services
 Audit Office
Client Survey

Agency: _____ Date: _____ Supervisor: _____

We would appreciate knowing your opinions on the quality of our audit of your organization. In our efforts to continually improve our audit program, your feedback is valuable to us. Please take a few moments to complete this survey.

	<u>Very Satisfied</u>	<u>Somewhat Satisfied</u>	<u>Not Satisfied</u>	<u>Comments</u>
1. The audit objectives were clearly communicated to me.	0	0	0	
2. The audit took an acceptable amount of time (from entrance to exit).	0	0	0	
3. The disruption of daily activities was minimized as much as possible during the audit.	0	0	0	
4. My concerns and perspectives were adequately considered during the audit.	0	0	0	
5. Communication of audit findings and progress	0	0	0	
6. The audit team demonstrated technical proficiency in audit areas.	0	0	0	
7. The audit team demonstrated courtesy, professionalism, and a constructive and positive approach.	0	0	0	
8. The audit team's conclusions and opinions were logical and well documented.	0	0	0	
9. Audit recommendations were constructive and actionable.	0	0	0	
10. Overall, the audit was beneficial to my organization.	0	0	0	

Thank you very much for taking the time to provide feedback. Please return this form to:

Forrest J. White, Chief Executive Officer
 Audit Committee
 1685 S. Airport Way
 Stockton, CA 95206

1310 LETTER OF REPRESENTATION

The management representation letter is required for every audit of financial statements. Basically during an audit, management makes many representations to the auditor, both oral and written, in response to specific inquiries. Such representations by management are part of the evidential matter the auditor obtains.

The primary reasons for obtaining a client representation letters are:

- Management is asked to acknowledge their primary responsibility for the financial statements. Even if the auditor prepared the financial statements and related notes to the financial statements, the financial statements are the primary responsibility of management. For nearly a century, - or nearly as long as the financial statements have been audited – it has been accepted that financial statements are management's representations.
- To serve as a checklist of important matters that may affect the financial statements. The written representations should be addressed to the auditor. Because the auditor is concerned with events occurring through the date of his or her report that may required adjustment to or disclosure in the financial statements, the representations should be made as of a date of the exit conference.

1310.1 Sample Representation Letter

DAA Letterhead

(If dated, must be dated the last day of field work.)

CDFA Audit Office
Karen Manor, Audit Chief
1220 N Street
Suite A-454
Sacramento, CA 95814

We are providing this letter in connection with your audit of the financial statements of the _____ District Agricultural Association (DAA), _____ County Fair, as of December 31, 1997, and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the _____ DAA in conformity with accounting principles used by California District Agricultural Associations. We confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations and cash flows in conformity with the accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

1. The financial statements referred to above are fairly presented in conformity with the accounting practices for district agricultural associations prescribed by the State of California and the Division of Fairs and Expositions, which is a comprehensive basis of accounting other than generally accepted accounting principles.
2. We have made available to you all -
 - a. Financial records and related data.
 - b. Minutes of the meetings of directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no -

- a. Irregularities (intentional misstatements or omissions of amounts or disclosures in the financial statements or misappropriations of assets) involving administrative officials or employees who have significant roles in processing transactions or safeguarding assets.
 - b. Irregularities involving others that could have a material effect on the financial statements.
 - c. Communication from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.
4. We have not adopted any plans, nor do we have present intentions, that may materially affect the carrying value or classification of assets or liabilities.
5. The following have been properly recorded and disclosed to the CDFA Audit Staff:
 - a. Related party transactions, joint ventures, leasing arrangements, guarantees, and long-term rental agreements. Related party transactions include, but are not limited to, transactions between the Fair and an employee, officer, or relative of an employee or officer.
 - b. Arrangements with financial institutions involving loans, lines of credit, compensating balances, or other arrangements involving restrictions on cash balances or similar arrangements.
 - c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with Statement of Position 94-6, Disclosure of Certain Significant Risks and Uncertainties. Significant estimates are estimates at the balance sheet date that could change materially within the next year.
 - d. Agreements to repurchase assets previously sold.
6. There are no -
 - a. Violations or possible violations of budget ordinances or laws or regulations (including those pertaining to adopting amending budgets) that have come to our attention that have not been disclosed to the CDFA Audit Office.
 - b. No unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5.
7. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements, and there are no

undisclosed assets or liabilities. All accounts receivable are probable of collection.

8. The Fair has satisfactory title to all owned assets, and there are no liens on such assets nor has any asset been pledged other than those disclosed to the CDFA Audit Office.
9. We are responsible for the _____ DAA's compliance with laws and regulations applicable to it; and we have identified, and disclosed to you, all laws and regulations that have a direct and material effect on the determination of the financial statement amounts. We have complied with all aspects of laws, regulations, and contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
10. No events have occurred subsequent to the balance sheet date that would require adjustments to, or disclosure in, the financial statements.

Signed: _____	Signed: _____
Title: <u>CEO</u>	Title: <u>Board President</u>
Date: <u>(last day of fieldwork)</u>	Date: <u>(last day of fieldwork)</u>